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## ESCALATION OF CONFLICT IN FMCG INDUSTRY: A NEGOTIATION CASE

JOÃO DE FREITAS MARTINS GONÇALVES PESTANA | #1886

A project carried out on Negotiations Analysis course, under the supervision of:

PROFESSOR LUÍS ALMEIDA COSTA

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## **ABSTRACT**

This work project develops a case-study to be used in Negotiation courses, both in Masters programs and in executive education workshops. The case-study is based on a real-life negotiating situation in Belgium between Unilever, the second largest Fast Moving Consumer Goods (FMCG) company in the world, and Delhaize, one of the most important Belgium's retailers, with a significant international presence.

We also present an analysis of the negotiation based on relevant literature. First, a brief literature review is presented about how to deal with multiple-issue negotiations and how to deal with processes of escalation of conflict. These concepts are then applied to the analysis of the case-study.

**Keywords:** Negotiation, Package Deals, Processes of Escalation of Conflict, FMCG

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## INTRODUCTION

Unilever and Delhaize are two main players in the Fast Moving Consumer Goods (FMCG) industry. Unilever is the world's second largest FMCG company and Delhaize is one of the largest retailers in Belgium, controlling 25% of the Belgium market, and a relevant player in other markets such as the United States.

This work project was based on real life negotiation between these two companies in Belgium, which took place in 2009 and led to important losses for both companies. This negotiating situation illustrates a process of escalation of conflict, which occurs very often when parties do not approach the negotiation process correctly.

We start by describing the real story behind the case-study, in order to establish the origins of the case. Then we present the case-study, which was written to be used in negotiations courses, both masters programs and executive education workshops. After that, we present a brief literature review about how to deal with multiple-issue negotiations (package deals) and how to deal with a negotiation in order to avoid situations of escalation of conflict. Finally, we applied these ideas and concepts to the analysis of the case-study.

An important conclusion of the analysis presented in this work project, is that it is crucial to avoid approaching a negotiation with a single-issue logic and that parties should adopt a package deal approach, trying to identify tradeoffs that increase the total size of the pie. To accomplish this, parties have to take into account the other side's interests. Furthermore parties should pay attention to the management of the relationship, avoiding negative spirals of conflict.

## REAL STORY

In this section we present the real story behind the negotiation between Unilever and Delhaize. We revisit chronologically each step of the negotiation.

### Unilever vs. Delhaize<sup>1</sup>

In 2009, the yearly negotiations between Unilever, the world's second largest Fast Moving Consumer Goods Company (FMCG), and Delhaize, one of the largest Belgium retailers, were influenced, not only by the unfavorable economic environment, in particular the significant decrease of the purchasing power of consumers, but also by a series of mistakes that led to a process of escalation of conflict and to the breakdown of the negotiations.

The decrease in the purchasing power of the consumers, which characterizes the last few years, was putting the two companies under increasing pressure, as they were looking for ways to sustain their profits. The negotiation between Unilever and Delhaize analyzed in this work project took place in Belgium in this adverse context. The negotiation for the year 2009 started in October 2008 and lasted until March 2009, with significant losses for both parties.

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<sup>1</sup> This story is largely based on the following documents available on the internet: "Unilever Talks With Delhaize After Grocer Scraps 320 Products" (Molenaar, 2009), "Delhaize shrugs off Unilever clash", (Pignal, 2009), "Unilever's public dispute with Belgian retailer escalates", (Pignal and Wiggins, 2009a), "Unilever pressure resisted by Delhaize", (Pignal and Wiggins, 2009b), "Big Grocer Pulls Unilever Items Over Pricing", (Rohwedder, Patrick, Martin, 2009), "Delhaize, Unilever agree deal to end pricing row", (Gray-block and Cowell, 2009).

The negotiation situation started when Delhaize faced a demand from Unilever to guarantee shelf space for all of its new products and to accept the product assortment imposed by Unilever without contesting it. From the perspective of Delhaize, this request was unacceptable, for two reasons. First, Delhaize was facing a significant increase of the demand for private label brand. Second, this restriction would limit Delhaize's ability to adjust their product mix to their customer's preferences.

Both parties started by taking extreme positions. Unilever stated that many of their products were customers' first choice. In contrast, Delhaize believed that it was simply impossible to satisfy Unilever's demands, as they would be extremely unfair to the other suppliers.

The two parties exchanged arguments defending their own point of view. Unilever brought to the table the size and strength of its brand – any new product has Unilever's logo on it, and this is an attractive element to consumers. Furthermore, the fact that they were the second largest FMCG company in the world was something that could not be ignored by Delhaize. Unilever also remembered Delhaize of their long-term partnership and of the fantastic achievements that were only possible due their mutual cooperation.

Delhaize representatives had a different view. They mentioned that they acknowledged the importance of the partnership for both companies and the significant brand recognition of Unilever. However, their shelf space was limited and, since most suppliers were asking for more shelf space for their products, they had to be fair to all of them. They could not open an exception for Unilever and forget other important suppliers, such as Nestle or Procter & Gamble. Furthermore, Delhaize argued that they were experiencing a significant growth in the private label segment and, as a result, they

had to adapt to customers' preferences. As their representative stated: " We would like to keep control over our own product range to meet our customers' demands!"<sup>2</sup>. Finally, Delhaize spokesman pointed out the fact that it was very important for them to choose the products they sell: " Unilever offers a very broad product range that would take away our freedom to choose the products we sell". For all reasons, Delhaize considered simply impossible to meet Unilever's demands.

These arguments did not convince any of the parties involved and the level of tension increased. Facing the denial of Delhaize regarding shelf space, Unilever decided to move to another issue, price, by asking a 2.5% increase. They argued that this increase was lower than the inflation for 2009, and that all the other retailers in Belgium had already accepted it. Delhaize immediately refused the price increase, arguing that in a context of decreasing purchasing power of consumers it was unrealistic to increase prices.

After this second denial, people at Unilever were getting really upset. Anyway, they contacted Delhaize again in a final effort to solve the pending issues and to avoid further problems. They asked Delhaize to think carefully about their proposals and mentioned it was not reasonable to antagonize an important supplier. They also reminded Delhaize that they were one of the most important brands worldwide and that they had grown 7.4% in the last year. Unilever representatives mentioned that with a little bit of flexibility it would be possible to reach an agreement and avoid further problems...

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<sup>2</sup> Although the statements attributed to the representatives of both parties in the negotiation do not necessarily correspond exactly to what has been said, they reflect what happened and are consistent with the overall spirit of the negotiation.



Delhaize didn't change their point of view and insisted that, although they understood Unilever's perspective they could not afford to lose the freedom to choose the products they sell. They asked Unilever to understand their position.

Unilever representatives found the position of Delhaize totally unacceptable: "We have always collaborated with them in the past, and now they refuse all our requests! They even refuse to accept what all the other retailers in Belgium accepted!"

Irritated with Delhaize's "lack of flexibility" Unilever decided not to give quantity discounts to this retailer. In retaliation, Delhaize de-listed seventy Unilever's products. This was considered as totally unacceptable by Unilever: "First they refuse all our requests, now they de-list seventy of our products, this is totally unacceptable! This time we are going to teach them a lesson!" Unilever then threatened a 30% price increase in all products that the Delhaize was still selling if they did not agree on the other terms that had been previously discussed, namely guaranteed shelf space for every new product from Unilever.

Delhaize's representatives could not believe: "First they came with some crazy demands about shelf space and prices, now they threaten to go even further. This is totally unacceptable! We refuse to deal with people like this!" Delhaize reacted by de-listing around 300 Unilever products.

The conflict continued to escalate. Unilever launched a huge advertising campaign stating that their products, the ones that the customers prefer, were still available on all the other supermarkets chains in Belgium, trying in this way to redirect Delhaize's customers to its rivals stores. The reaction from Delhaize was to launch promotional campaigns on other brands, in particular their own private label brand, in order to induce customers to shift from Unilever's brands.

This process of escalation of conflict resulted in significant losses for all the parties involved. Around 31% of Delhaize customers decided to go to other supermarket chains to buy Unilever products. Other 19% of Delhaize customers were unhappy and still deciding what to do. However, around 47% of Delhaize customers reacted to the de-listing of Unilever's products by changing to other products. And half of these customers switched to Delhaize own private label brand. In spite of this, losses for Delhaize were also very significant.

This conflict ended on March 6<sup>th</sup>, with both parties stating that they had reached a satisfactory agreement, but not revealing the details. The agreement probably included price and shelf space as main variables, as well as other variables, such as terms of payment, promotions, new products, and private label. Both Unilever and Delhaize referred in a join statement: "The agreement means a positive outcome for both parties and the consumer".

## **CASE STUDY<sup>3</sup>**

In this section, we present a case-study based on the real story described above. We first present the general instructions, which will be distributed to all students independently of their role in the negotiation. The general instructions present some background information about the industry and the negotiation. We then present the confidential instructions for the two parties, which will be distributed only to students playing that specific role. The confidential instructions provide detailed information about the situations, the objectives and the concerns of that party in the negotiation.

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<sup>3</sup> For confidentiality reasons the companies' names are fictitious.

## General Instructions

Reaching October it is time to engage in the yearly negotiations between retailers and suppliers.

Tomorrow, Jean Louis Savre, head account manager for Lèvery, and Pierre Villiers, manager of the purchasing department at Dupraise, will meet at Dupraise's facilities to discuss next year agreement. There are a significant number of variables under discussion, which accentuate the complexity and importance of this negotiation.

## Retail Industry

The economic conditions that the industry is experiencing are far away from ideal. The significant reduction on customers' purchasing power requires a deeper cooperation between retailers and suppliers to ensure a profitable future. Furthermore, the significant growth, over the last years, of private label brands has changed the relationships between retailers and suppliers. Retailers are now much more demanding due to the fact that they are less dependent on big brands.

The retailing industry is changing. In the past there were many small retailers that were working together to fight against the enormous power of the suppliers. Nowadays, we are experiencing the shut down of those retailers and the strengthen of the bigger ones, which dominate the entire market. This is creating additional problems for suppliers.

## Lèvery

Lèvery is the world's second largest Fast Moving Consumer Goods (FMCG) company. It has a very strong brand recognition, which makes it the customers' first choice in many categories of products. Last year they have experienced a sales growth of 3.5%. They are the leading brand in many segments, and are a very important supplier to Dupraise. Lèvery is trying to achieve a better deal in order to defend their position and profitability. The increasing importance of private label and discount brands may affect Lèvery's Profit significantly, unless the right measures are taken.

## Dupraise

Dupraise is one of the largest retailers in Belgium, and it is known by its significant presence outside Belgium, specially in United States of America. In Belgium it has around 840 stores and market share of 25%, making it a very important retailer for any supplier, such as Colgate Palmolive, Nestle and Procter & Gamble (P&G). In particular it represents 20% of Lèvery total sales in Belgium, being one of their main retailers.

## Negotiation Process

The negotiation process is expected to be tough due to the surrounding environment. The pressure that customers are putting on both retailers and suppliers is constraining their margins, making the negotiation process much more complex. Although, extreme measures, like breaking the negotiation are possible, both parties are well aware that they have much more to gain from a cooperative agreement. Consequently, they have a clear desire of reaching a fruitful agreement.

## Confidential Instructions for Lèvery

As Lèvery's head Account Manager for the retailer in question, you are preparing the negotiation, and for that you are analyzing all the variables that are usually included in the annual agreements. You are looking forward to optimize the terms of the agreement in tomorrow's meeting with Pierre Villiers.

### Quantity Discounts

You are satisfied with the current discounts that you are offering. In your opinion the values are fair when considering the relative dimension of Dupraise in the market.

You believe that you have been extremely fair to all retailers. Despite the decrease of customers' purchasing power and the increasing importance of private label brands, you kept the level of discounts for your retailers.

However, you suspect that Dupraise wants to increase the quantity discounts, alleging that although an increase will not be aligned with the industry standards, it would be fair considering the increasing importance of Dupraise's private label.

### Terms of Payment

Dupraise typically pays in 30 days. Despite not being an usual measure in this industry, you intend to reduce the terms of payment, taking into account: The economical environment that has been very negative for the industry; Your Cost of Capital = 12%; Research and Development (R&D) expenses, which are huge due to the fact that the market is evolving at an increasing rate.

### Promotional Discounts

Promotional discounts may be important to get the product to a larger base of customers. However, when used in excess, promotional discounts may have a negative impact on the value of your brands, focusing customer's attention on price. In this type of programs you share the costs of a price reduction with Dupraise. You have already been informed that Dupraise is very interested in these promotions, however your past experiences concern you.

### Assortment

It is a fundamental issue for this negotiation process, since it defines type and size of the SKUs (Stock Keeping Units) that represents the available shelf space that a supplier is entitled to. You intend that Dupraise carries a wider range of your own products as well as give you more attractive locations to display them. For that to happen you want to increase the number of both SKUs and products. You are aware of the fierce competition in the battle for in store space, but the quality and the in store traffic that your products bring, conceive you the right to increase the range and visibility.

### Private Label

Private label brands are a huge threat for companies like Lèvery, as they are conquering an important part of the market, mainly due to the decrease in the customers' purchasing power. Dupraise wants you to produce some products for their own brand. However, the new guidelines that were given to you by your executive committee state that you should stop producing these types of products.

### Logistics

Having the frequency and size of each order defined in advance, allows your company to carefully organize the production plan, reducing inventory costs. You intend to end with small orders, since it significantly cuts off your profit.

You are aware that this implies a sophisticated system from Dupraise with the inherent costs and that it takes away some of their flexibility in stock management.

### Sharing Data

You would like that Dupraise share with you their database of customer's buying behaviors, because it facilitates your path to understand your customers better. This will allow you to adapt your company's products to your customers need. The retailer usually charges a fee, as a way to compensate him, but the benefit you'll get from it will offset the costs.

### New Product Acceptance

Lèvery is about to launch a new product to the market, more specifically a new ice-cream line. It is crucial for the success of your new product that Pierre Villiers accepts your new product. You have already tried to launch this line in the past but it was not well succeeded. It is common practice to compensate the retailer for the acceptance of a new product. The most typical one is a Listing Fee, which consists in a one-time lump sum payment. Some retailers also demanded a compensation that can go up to 20% of sales.

### End-of-Gondola

You are interested in this type of displays to promote the new products that you expect to launch. This will grant excellent visibility to your products. The full cost, which includes both paying the space to the retailer and setting it up, is 250 000€, and it is clearly offset by the benefit that arises from these displays, which is of 400 000€.

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## **Exhibit 1. Lèvery – Summary of Benefits (Costs) in €000 \***

<b>Issue</b>	<b>Benefit (Cost)</b>
<b>1. Quantity discounts</b>	
-5%	400
0%	0

+5%		(100)
+15%		(800)
<b>2. Terms of payment</b>		
15 days		500
30 days		0
45 days		(500)
<b>3. Promotional discounts</b>		
0%		150
5%		0
10%		(200)
20%		(800)
<b>4. Assortment</b>		
Number of Products	-5%	(300)
	0%	0
	+5%	400
SKUs	-10%	(500)
	0%	0
	+10%	500
<b>5. Private label</b>		
No		1000
Yes		(700)
<b>6. Logistics</b>		
Pre-defined orders?	No ____	0
	Yes ____	250
Size of orders (only if pre-defined orders)	Small	30
	Medium	100
	Large	250
<b>7. Sharing data</b>		
No		0
Yes		400
Fee		(100)
		(200)
		(300)
<b>8. New product acceptance</b>		
Accepted?	No ____	0
	Yes ____	2500
Compensation:	0%	0
	10%	(300)
	20%	(600)
Listing fee		_____
<b>9. End-of-Gondola</b>		
(Note: only if ice-cream line is accepted)		
No		0
Yes		150

\* Relative to the terms of last year's Sales Agreement

## Confidential Instructions for Dupraise

As Dupraise's head Account Manager for the retailer in question you are preparing the negotiation, and for that you are analyzing all the variables that are usually included in the annual agreements. You are looking forward to optimize the terms of the agreement, in tomorrow's meeting with Jean Louis Savre.

### Quantity Discounts

Given your current growth and the fact that private label brands represent a significant percentage of your total sales, it is your opinion that you should benefit from higher discounts. In your opinion a 10% increase is extremely fair considering the efforts you have put to sustain the visibility of Lèvery's products.

It has come to your knowledge that Lèvery is satisfied with the current percentage because they follow the same limits according to the dimension of each retailer.

### Terms of Payment

You currently pay in 30 days, which is in between the industry standards. You are satisfied with these conditions, however you are aware that the producer wants to reduce the terms of payment, which will set a new industry standard, and that is not an usual measure.

Your Cost of Capital = 8%

### Promotional Discounts

It is important for you to guarantee promotional discounts in order to attract more customers to your stores. If you do them, Lèvery will share the costs with you.

Lèvery is not a big fan of these promotions, mainly because they have significant doubts of its effectiveness due past experience where they lost a significant amount of money with promotions like these, and they are still not very comfortable in doing them.

### Assortment

It is a fundamental issue for this negotiation process, since it defines type and size of the SKUs (Stock Keeping Units) that represents the available shelf space that a supplier is entitle to. You have been receiving innumerable requests from different suppliers to increase both the number of products you carry, and their visibility. In order to satisfy any of these requests you have to deteriorate the position of another supplier, and you do not want to do it.

### Private Label

The appearance of private label brands and its recent growth has changed the way customers' buy. It is important for you to have a significant variety of private label products, and for that reason it is important that Lèvery produces products to your own brand. You are aware that this is a major threat and a challenge to the other brands, but it is an issue that you cannot ignore if you want to adapt to your customers' preferences.

### Logistics

Logistics are a very important aspect regarding efficiency. Having the size and frequency of orders pre-defined represents a significant increase in efficiency for suppliers. Every supplier wants to sell entire pallets of products because it reduces their costs. However, this implicates that you make an upgrade of your software, and limits your flexibility in stock management.

### Sharing Data

You already have the platforms needed to manage the clients' information. Sharing the information that you already have with your suppliers doesn't have any inconvenient to you, neither to your clients' privacy.

You charge a fee for providing this information that depends on the importance of the supplier.

### New Product Acceptance

Lèvery is about to launch a new product to the market, more specifically a new ice-cream line. They have already tried to launch this line but it was very far from a success, so they took it out of the market. It is standard practice to ask for a Listing Fee, which consists in a one-time lump sum payment. Some retailers also demanded a compensation that can go up to 20% of sales.

You are percipient that every producer has significant interest in seeing his new products accepted, however you intend to balance the scale regarding the ice-cream line, in order not to give too much control and power to the supplier.

### End-of-Gondola

You predict that Lèvery will want these displays to promote their new products, and consequently to enhance their visibility to customers. You charge a pre-defined value of 250 000€. You have no cost for providing the space. It is in your best interest to have this space occupied with new products.

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## **Exhibit 2. Dupraise – Summary of Benefits (Costs) in €000 \***

<b>Issue</b>	<b>Benefit (Cost)</b>
<b>1. Quantity discounts</b>	
-5%	(1200)
0%	0
+5%	1200
+15%	2500
<b>2. Terms of payment</b>	
15 days	(350)
30 days	0
45 days	350
<b>3. Promotional discounts</b>	
0%	(250)
5%	0



10%		300
20%		500
<b>4. Assortment</b>		
Number of Products	-5%	200
	0%	0
	+5%	(200)
SKU	-10%	400
	0%	0
	+10%	(300)
<b>5. Private label</b>		
No		(500)
Yes		350
<b>6. Logistics</b>		
Pre-defined orders?	No___	0
	Yes___	(100)
Size of orders (only if pre-defined orders)	Small	(10)
	Medium	(30)
	Large	(50)
<b>7. Sharing data</b>		
No		0
Yes		0
Fee		100
		200
		300
<b>8. New product acceptance</b>		
Accepted?	No___	0
	Yes___	250
Compensation:	0%	0
	10%	250
	20%	500
Listing fee		_____
<b>9. End-of-Gondola</b>		
(Note: only if ice-cream line is accepted)		
No		0
Yes		250

\* Relative to the terms of last year's Sales Agreement

## LITERATURE REVIEW

This literature review focuses on two topics that are particularly important to analyze the Negotiation case presented in this Work Project. First, we discuss the structural differences between single-issue bargaining and multiple-issue bargaining and analyze how to negotiate a package deal when the objective is to maximize total value creation. Second, we discuss the structural determinants of processes of escalation of conflict and how to avoid such negative situations.

### Single-issue vs. Multiple-issue Negotiations

When analyzing a negotiation it is important to understand if we are facing a single-issue negotiation, where the key dimension is the distributive dimension, or a multiple-issue negotiation, where the key dimension is the integrative dimension. A single-issue negotiation is processed around the division of a single good. It is a fixed-sum game where one's party's win means the other's loss. This is the type of negotiations where both parties only care about claiming value to themselves, instead of thinking in ways to create joint gains.

(Dietmeyer and Bazerman, 2001; Raïffa, Richardson and Metcalife, 2002)

On the other hand, a multiple-issue negotiation is a negotiation where the integrative dimension plays an important role in order to enlarging the pie, thereby increasing the value creating potential for all the parties. A multiple-issue negotiation also has a distributive dimension, as parties should try to appropriate an important part of the total value created. As pointed out by Raïffa *et al* (2002, p.191), in an integrative negotiation there is tension between the method used to create value and the one used to claim value, and to balance this tension is one of the key challenges negotiators face.

When we are facing a single-issue negotiation, but there is a possibility of moving to a multiple-issue negotiation, we should not hesitate in changing the framework, because in a multiple-issue negotiation there is the possibility to increase the total value created for all the parties involved.

The first step in a multiple-issue negotiation should be to try to deeply understand the counterpart. For that it is important to focus on interests instead of positions. Interests are our truly desire and motivation, while positions are what we think we need to accomplish our interests. However, there is more than one way to satisfy our own interests, and may be, there is a way that satisfy both, our own and our counterpart's interests at the same time. Fisher and Ury give us the example of the librarian and two students, where one wanted the window closed and the other opened. They were discussing and they were not able to reach an agreement. The librarian intervened and asked each of the students the reasons behind their positions of having the window closed and opened, and soon she understood that one wanted some fresh air and the other want to avoid the draft. So she realized that by opening a different window, the air would still be fresh and the draft would be avoided. Instead of haggling over the position of having the window opened or closed, it would be more beneficial for them to focus on what was really driven the other party, thus in that way avoiding the arousal of conflict. (Fisher and Ury, 1981) To fully understand the counterpart's interests, it is extremely important to gather information, and for that we should create a trustful relationship with our counterpart by exchanging some information and brainstorming together. (Dietmeyer and Bazerman, 2001)

To enlarge this exchange of information, the creation of a template is highly recommended, which includes a list of all the issues on top of the table and all the

possible solutions to each issue that were previously brainstormed together by the parties involved, both the non-controversial and the controversial issues. (Raiffa *et al.*, 2002)

In a multiple-issue negotiation there are two types of issues, the non-controversial issues and the controversial ones. The non-controversial issues are the issues where the preferences of the two parties point in the same direction. The controversial issues are the ones where the preferences of each party point in the opposite direction, for example price: a seller wants to have the highest price possible, while the buyer wants the lowest price.

Non-controversial issues are easy to deal when both parties have the complete set of information, being able to identify both controversial and non-controversial issues. However, they can also be delicate to deal with, when there is asymmetry of information, meaning that one party can be aware that they both gain from that issue, while the other might think that his counterpart is the only beneficiary of that issue. In these cases the most informed negotiator can take advantage of these issues, by requiring a compensation for conceding on that specific issue, where he also benefits. They are considered as hidden-congruence issues.

To deal with controversial issues, a negotiator should first understand and quantify his own benefits and costs, and after that, one should try to discover his counterpart's interests, in order to increase the possibility of value creation. In doing so a negotiator should search for possible synergies. In order to a negotiator to extract information and understand his counterpart's preferences, he should propose multiple mini-packages, such as asking the other part to choose between 5% of A and 10% of B, or 7% of A and 8% of B. With the multiple packages proposed, the negotiator would be

able to identify which variable is more valuable to his counterpart, and in that way explore the differences in preferences and expectations. The dovetailing of those differences allows the creation of a bigger “pie”. The reservation price, which is the minimum value that a negotiator is willing to accept, should be defined for the entire negotiating package and not to each issue separately, thus reducing the probability of the appearance of conflicts. (Fisher and Ury, 1981; Lax and Sebenius, 2003)

By exploring those differences, a negotiator would be exploiting smart-tradeoffs, by taking advantage of the exchange rates, which is equal to the benefit to the other part over the cost that it has for himself. The essence is to agree on smart trade-offs, by giving up on issues that have a significant positive outcome for our counterpart, and at the same time that cost us very little. When making a concession where the exchange rate is higher than one, we are always creating value for the negotiation. (Raiffa *et al.*, 2002) As Dietmeyer and Bazerman said: “The key ingredient for creating value in negotiation is developing wise trades”.

## Process of Escalation of Conflict

Processes of escalation of conflict often result from a number of mistakes negotiators usually make and that lead to the escalation of the undesired conflict. A very common problem is that negotiators often neglect the other side’s problem, focusing only on their own situation and trying to impose their perspective on the counterpart. This happens when parties approach a negotiation with a single-issue logic, and in the beginning of the negotiation they take extreme positions on that issue. If such approach is taken, the negotiation will be around the discussion of a single issue, thus the probability of reaching an agreement significantly decreases.

Another common mistake that leads to the arousal of conflict is the fact that the parties involved approach the negotiation as a mere exercise of argumentation, trying to convince their counterpart of their own ideas. According to Schelling (1956) arguments do not play a major role in negotiations, the important fact is the convergence of expectations and to exploit the difference of interests, and for that parties should ask more questions. Arguments do not convince the other party, instead they irritate and create resistance. When we are using excessive argumentation we are revealing precious information that can give a significant advantage to our counterpart and we are losing the possibility of listening to what the other negotiator has to say, thus in that way not collecting very useful information. (Sebenius, 2001)

The loss of credibility, at the beginning of the negotiation, by one of the parties involved is also an important factor that leads to the escalation of conflict. This happens when people lie to their counterpart and then they are caught. When the other party does not believe his counterpart, it becomes very difficult for parties to work together in order to create value. For avoiding the escalation of conflict due to the lack of credibility, negotiators should try not to make extreme offers, not to make a solid offer and then withdraw it with no convincing reason, and not to make an ambitious offer and then make significant concessions to achieve an agreement, as well as not to lie to their counterpart.

Negative spirals of conflict may also result from bad management of interpersonal relationships between the two parties. Negotiators should treat their counterparts with respect and delicacy, make them feel well and right. To do so they should adopt a proper and friendly language that makes the other part feel good. Despite being nice and friendly to the other party, negotiators must be tough on the issues they

are discussing and say whatever they have to say, taking into account the type of language used. As Fisher and Ury (1981, p.12) said: “Be soft on the people, hard on the problem”.

Finally, there is also an important element that is crucial on the explanation of the escalation of conflict, which is the significant sense of pride of each human-being. Human-beings hate to admit their own mistakes, and many times this leads to the development of undesired situations. Negotiators tend to search for additional information that upholds their point of view, but they rarely look for information that contradicts them, which is called bias in perception and judgment. Very often they are more worried with the impression they left to others and in competing against their opponents, rather than making the wiser choices that would benefit them the most. (Lax and Sebenius, 2003)

## ANALYSIS

In this section we will make an analysis of the case study that was previously created, considering the important topics that were covered in the literature review, namely how to create value with multiple-issue negotiations.

When we approach a negotiation like the one presented in the case-study, the negotiator's first task is to identify the non-controversial, as well as the controversial issues in that negotiation. After identifying those issues, a negotiator should take advantage of them, since they generate a positive outcome for both parties involved.

It is also important to split the non-controversial issues in two different groups: First there are the ones, which are easily identifiable, where both suppliers and retailers are aware that they both benefit from those issues. It is the case of Sharing Data, which

creates value to the supplier and has no cost to the retailer. The value created is higher than the fee that the retailer is entitled to. Second, we have the non-controversial issues with hidden-congruencies, meaning that one of the parties involved does not know that his counterpart also benefits from that variable. It is the case of the ice-cream line that the supplier wants to introduce. However, given the fact that he has information stating that in the past the launch of that ice-cream line was a failure, he might assume that this is a controversial issue. Here the goal of the retailer is to take advantage of this issue, in order to increase his surplus. He can take advantage of this aspect by demanding that his counterpart make a concession on a controversial issue. On the other hand the objective of the supplier is to discover that the launch of the new ice-cream line would be beneficial to both parties, thus in that way not allowing the retailer to take advantage of the initial asymmetry of information.

When dealing with the controversial issues parties should try to find different ways to exploit efficient tradeoffs. Parties should be able to take advantage of possible synergies, as well as complementarities.

In this case-study parties already have information about their own payoffs, provided as the summary of benefits, so they should move to the next step, which is learning about their counterpart's preferences. In order to identify his counterpart's preferences and efficient tradeoffs, a negotiator should propose multiple mini-packages.

The proposal of multiple mini-packages, such as asking the supplier to choose between having private label and 0% of promotional discounts, or not having private label and 10% of promotional discounts, allows the negotiator to understand his counterpart's preferences. In this case the retailer would find out that the supplier values more the non-production of private label products.



In the case of the Quantity discounts it makes sense to increase by 5%, since it costs 100 to Lèvery, and generates a positive outcome of 1200 to Dupraise, which means that the exchange rate is equal to 12, while if the chosen option is to increase by 15% the exchange rate will only be 3,125. Despite value is being created in both alternatives, it is clear that the first option is much more beneficial. When looking at the Terms of Payment it is obvious that it does not make sense to Dupraise to have the desire to increase the number of the days, since it represents an exchange rate lower than one, which means that no value is being created. The wise tradeoff would be decreasing the number of days, because Lèvery's cost of capital is higher than Dupraise's cost of capital, so, by decreasing it, they would be taking advantage of an exchange rate higher than one. With a logic of looking solely to the exchange rates: in Promotional Discounts the smart decision would be increasing by 10%. The Assortment choice would be to increase both the number of products as well as the SKUs by 5% and 10%, respectively. And finally the Logistics option would be to have pre-defined (exchange rate equal to 2.5) and large orders (exchange rate equal to 5).

Negotiators should exercise their pressure selectively, they should not insist in tradeoffs that simply do not create value. If wise choices are made, there is plenty of room for value creation, which will be beneficial to everyone involved in the negotiation. They should also agree on the package as a whole, instead of negotiating each issue in isolation, thus decreasing the probability of the appearance of undesired conflict.

In the real negotiating situation we can observe a series of mistakes, that were previously discussed, which led to a spiral of conflict and to the breakdown of the negotiation. First, parties adopted a single-issue logic, focusing on one issue at the time.

Instead of proposing multiple mini-packages to understand their counterpart's preferences and in that way creating value for both parties, they discussed shelf-space. After not reaching an agreement they discussed price, and after that parties took extreme positions. As parties were discussing, they were using excessive argumentation that did not convince and only irritated their counterpart, as well as threw away essential information.

The negative spiral continued with parties making explicit threats to each other and with parties inflicting severe damage to their counterpart, such as: "First they refuse all our requests, now they de-list seventy of our products, this is totally unacceptable! This time we are going to teach them a lesson!"

It is also observable that management of the relationship was not carefully handled. Strong language was used, and that deteriorated their relationship. They reacted to emotional outbursts, which only made each negotiator more angry, thus in that way deviating their thoughts from the negotiation. Negotiators are people first, and their ego is something that is very hard to deal with, so it is essential to establish a fruitful and cooperative relationship in order to achieve a successful agreement for both parties.

## CONCLUSION

This work project was based on a real life negotiation between Unilever and Delhaize. It aimed to analyze the process of escalation of conflict in multiple-issue negotiations. It intended to explore the possibility of value creation in a negotiation of this kind.

The approach used to analyze the case-study allowed us to conclude that in negotiations of this type parties should move away from a single-issue logic to a multiple-issue logic. They should also quantify their benefits and costs as well as try to gather sufficient information about the other side's interests. This gathering of information would allow both parties to explore smart tradeoffs, by taking advantage of favorable exchange rates, thus in that way giving in issues that have a significant benefit to their counterpart, while at the same time have a low cost for the them.

Negative spirals of conflict many times threaten the value creation in negotiations. They constantly occur due to a series of mistakes by the negotiators. To avoid such spirals, negotiators should mainly avoid taking extreme positions and should try to create a fruitful and cooperative relationship with their counterpart.

The purpose of the negotiation case created is to be used in negotiation courses, both in masters programs, as well as in executive education workshops. The case has yet to be tested on a classroom environment, so that the necessary adjustments are made accordingly to both the professor and the students' insightful feedback.

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## APPENDIXES

### Unilever's Interview

- Understand the typical themes that are included in these negotiations and what is its relative importance.
- In particular:
  - Different types of discounts (ex: rebate;...)
    - What are the implications?
    - How do they work?
    - What are the ones typically involved?
  - Private Label:
    - What are the main implications for the parties involved?
    - Is it typically involved in the negotiations?
    - Does a company like Unilever produces private label for certain retailers?
  - Shelf Space
  - Introduction of New Products:
    - What variables are utilized by the supplier to compensate/incentivize the retailers to launch new products?
    - Which of these variables are the most used and which of these are the favorite ones for the parties involved? Why?
    - Ex: Compensation (% of sales); Listing Fee
  - Promotions
    - What type of Promotions are the most utilized?
    - Which of those do both retailers and suppliers prefer?
  - End-of-Aisle Display
    - Is it a variable that is typically included?
    - Who benefits from it? Retailers, suppliers or both?
  - Terms of Payment
    - In general who has the higher Cost of Capital? Retailers or Suppliers?
    - What are the most common terms of payment in the industry?

- What variables are priorities to both parties?
- Which of them are nonnegotiable for suppliers? And for Retailers?
- What are the most common trade offs regarding the different variables?
- How many variables are usually defined in the yearly negotiations?
- Are there mid-term negotiations?
- Do the same members usually compose the negotiating teams?
- What other variables are usually part of the annual agreement?
- Are the majority of variables constant throughout the years?
  
- How does the negotiation process usually occur?
  - Where do people usually meet?
  - When does the annual negotiation start?
  - How long does it last?
  - How many meetings?
  - When are negotiations typically over?
  - Understand the dynamic of the process
  - Other aspects that are relevant
  
- Industry Public Information